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IN THE

Supreme Court of the United States

October Term, 1946

No. 208

TRANSPARENT-WRAP MACHINE CORPORATION,
Petitioner,

vs.

STOKES & SMITH COMPANY,
Respondent.

PETITION BY RESPONDENT FOR REHEARING.

SAMUEL E. DARBY, JR.,
Counsel for Respondent.

VIRGIL WOODCOCK,
Of Counsel.

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PETITION BY RESPONDENT FOR REHEARING.

Respondent respectfully asks this Court for a reconsideration of this cause on the following grounds:

1. The majority opinion of the Court is based upon the application of the patent assignment statute (4898 R. S., 35 U. S. C. § 47) to the facts of the present case. This is a proposition which was not, and for obvious reasons could not have been advanced by counsel for Transparent-Wrap Machine Corporation, because neither the *language* nor the *legislative history* of the statute permits its application to the assignment of an *invention in futuro*, which alone, is involved in the present case. The statute is *expressly* limited to an *issued patent* or an *existing application* for patent and has no application whatever to the assignment of *inventions* which *may* be made *in the future*. 35 U. S.

C. A. § 47 (at p. 6) says of Section 4898 R. S., listing authorities therefor:

> "This statute is applicable *only* to assignments of *issued patents* and does *not* apply to the assignment of an invention *not yet patented.*" *

It is believed therefore, that the Court immediately will realize, upon further consideration of the matter in the light of the facts hereinafter recited, that the majority opinion is erroneously founded and requires reconsideration.

2. The majority opinion of the Court, for the first time in the consideration of cases involving the "improper use" of patents over a period of thirty years, has approached its decision from the viewpoint of what it is lawful for the *licensee* to do rather than what it is lawful for the *licensor* to do. The "improper use" doctrine has *nothing whatever* to do with what is lawful for the *licensee* to do. The only question posed in *every* case involving the doctrine is whether or not it is lawful for the *licensor* to use *its* patent as a bargaining power to monopolize something which the *licensor's* patent does not, in fact, monopolize. Obviously, it is as lawful for a *licensee* to buy from the licensor dry ice, salt tablets, paving emulsion, thermostatic switches, etc. as it is for *licensee* to assign its patent to the licensor, regardless of whether or not Congress has enacted legislation to permit it. *But that is not the test.* The test is, and always has been, whether or not the *licensor* can *compel* the licensee to do any of those things by a contractual condition to a license under the *licensor's* patent. It is believed that the majority of this Court completely lost sight of this controlling fact.

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* In 1941, years after the contract here involved was executed, Section 4898 R. S. was amended to include "*application* for patent". Emphasis ours throughout this petition.

3. Independently of the first and second points, the effect of the majority opinion is to nullify the "improper use" doctrine which this Court *repeatedly and unanimously* has sustained and has held unevadable in every instance heretofore called to its attention where it has been sought to use a patent as a bargaining power to create or maintain a limited monopoly in *anything* that the patent itself did not monopolize. In view of the fact that the majority opinion did not *expressly* overrule the "improper use" doctrine, it is impossible to believe that it was the intention of the Court *effectively* to do so. Nor is it believed that the Court will permit the majority opinion to stand when it is shown, as hereinafter it will be shown, that the effect thereof will be to nullify that salutary doctrine.

Each of these grounds will be briefly discussed.

I.

The majority opinion was based on the proposition that:

> "Congress has made all patents assignable and has granted the assignee the same exclusive rights as the patentee" (Opinion, p. 5).

With this as the starting point, the opinion later on the same page, and on succeeding pages, stresses the *lawful* monopoly represented by *a patent grant,* and *the Congressional sanction of the assignment thereof,* and reaches the conclusion that because of the assignability of a *patent,* the questioned provision of the license agreement between petitioner and respondent is legal and proper. The Court said (Opinion, p. 8):

> "In sum, a patent license may not be used coercively to exact a condition contrary to public policy. *But*

> *what falls within the terms of the assignment statute* is plainly not *per se* against the public interest."

From the first mention of the assignment statute throughout the discussion thereof, to and including the conclusion arrived at, the majority opinion inadvertently overlooked the fact that, contrary to the statement of the opinion, *the "terms" of the assignment statute are inapplicable to the facts of the present case.*

The assignment statute is *expressly* limited to *"application* for patent or *patent* or any interest *therein"*. In other words, not only must an invention have been *made*, but also it must have been *patented*, or an *application for patent therefor must have been in existence.*

The inapplicability of the statute to the present case will be seen immediately upon reference to the provision of the agreement here before the Court, the pertinent language of which is reproduced in Footnote 1 appearing on page 2 of the opinion. There it will be seen that the provision of the agreement with which we are concerned is:

> *"If* the Licensee *shall discover or invent* an improvement * * * it shall *submit the same* to the Licensor, *which may*, at its option, *apply* for Letters Patent covering *the same."*

Thus, immediately it is apparent that this contractual provision has nothing whatever to do with *inventions in existence* at the time the agreement was entered into, much less with any granted "patent" or "application for patent" to which the assignment statute *expressly is limited.* To the contrary, the contractual provision is *conditional* and *in futuro.* It was to be effective only "if" the licensee *"shall discover or invent* an improvement" and *then* re-

quires the licensee merely to "*submit*" the *discovery or invention* to the licensor "*which* may, at its option" (because only the *invention* has passed to licensor) "*apply* for Letters Patent covering the same".

We assert, therefore, that it is conclusive that the language of the assignment statute is wholly inapplicable to the present case, and affords no proper basis for the majority opinion of the Court.

Not only does the *language* of the statute exclude its application to the facts of the present case, but its spirit and intent do so as well, as will be seen from a brief consideration of its legislative history.

The Patent Act of 1790 (1 Statutes at Large, 109) was silent on the subject of assignability of inventions, patents or applications for patent. This Act was repealed on February 21, 1793, upon which date the Patent Act of 1793 went into effect (1 Statutes at Large, 318). Section 4 of the Act of 1793 recited:

> "That it shall be lawful for any inventor, his executor, or administrator, to assign the title and interest in the said *invention*, at any time, * * *."

This Act was repealed on July 4, 1836, when the Patent Act of 1836 went into effect (5 Statutes at Large, 117). Section 11 of that Act was directed to the subject of assignments, and it provided:

> "That every *patent* shall be assignable in law, either as to the whole interest or any undivided part thereof, by any instrument in writing; * * *."

From this it will be seen that while the Act of 1793 made it lawful to assign *inventions*, that Act was repealed

by Congress, and language was carefully chosen to make it lawful thereafter to assign only a *patent*.

The Consolidated Patent Act of 1870 (16 Statutes at Large, 198), which was adopted upon repeal of the Act of 1836, continued the limitation of the 1836 Act, and by Section 36 thereof provided:

> "That every *patent* or any interest therein shall be assignable in law by an instrument in writing; • • • "

thus adhering to the obvious Congressional intent to limit lawful assignment to *patents* as initially prescribed by Section 11 of the Act of 1836, and emphasizing the repudiation of the earlier provision of Section 4 of the Act of 1793 which permitted lawful assignment of title to or interest in an *invention*.

The Act of 1870 was repealed when the Revised Statutes were approved on June 22, 1874, and the language of Section 36 of the Act of 1870 was adopted as Section 4898 of the Revised Statutes.

From 1874 until August 18, 1941, Section 4898 of the Revised Statutes remained the same in so far as assignability was concerned, and its provisions were expressly limited to a *patent* grant whereby only a *patent* could be assigned lawfully.* On August 18, 1941, Section 4898 of the Revised Statutes was amended (55 Stat. 634) so as to include *applications for patent* within its provisions for lawful assignment, so that the pertinent language of the statute as it now stands is as quoted on page 5 of the Opinion of the Court in this case.

From this historical recitation it is believed to be shown conclusively that the assignment statute was *deliberately*

* See quotation from 35 U. S. C. A. 47 (at p. 6), *ante*, p. 2.

worded so as to sanction only assignment of existing *applications* for patents and issued *patents*, and to exclude from within its sanction the assignment merely of *inventions* as had been provided in the repealed Act of 1793.

Even more conclusively established by the foregoing review, is the fact that *no* statute has been enacted which countenances or sanctions assignability of *inventions in futuro*.

It is quite true that this Court has held that the employment of an inventor to make inventions is proper as consideration for assignment of the inventions—and the patents rights thereon—that the employee might make (Opinion, p. 5; *Standard Parts Co.* v. *Peck*, 264 U. S. 52) but this is a matter measured and controlled by the principles of *general law* (which is always subject to the public policy) *and not by the assignment statute*. The contractual provision here before the Court in no sense is analogous to an employment contract as its language and its provisional character plainly demonstrate. The contract neither requires inventive research nor contemplates that inventions *will* be made. It becomes effective only "if" inventions *may* be made—purely a fortuitous circumstance. Here the *licensor did not hire or employ the licensee to do anything;* the consideration paid by *licensee* for a license under licensor's patents was fixed, and remained the same regardless of whether or not licensee *ever* made any inventions.

Therefore, when the majority of the Court said:

> "In sum, a patent license may not be used coercively to exact a condition contrary to public policy"

the Court again restated the "improper use" doctrine, because all of the improper uses of patents, heretofore condemned by the Court, involved *coercion which was contrary to public policy* because, in *each* instance, the licensor

sought to use its patent to create a limited monopoly of something *its* patent *did not monopolize.*

Consequently, when the majority of the Court continued its opinion—

> "But what falls within the terms of the assignment statute is plainly not *per se* against the public interest"

it is obvious that the Court believed that the assignment statute was here applicable, and *Congressionally made permissible what otherwise the Court readily recognized as illegal.*

However, as we have shown, *the contractual provision here involved does* **not** *fall "within the terms of the assignment statute".*

Therefore, it is confidently believed that when the Court realizes the error of the foundation and reasoning upon which the majority opinion in this case is based, the Court will appreciate the necessity for a rehearing, and will grant the present petition.

II.

Little need be added to the statement of this point, as made on page 2 hereof, to establish its impelling force.

Even if the assignment statute *did* apply to the facts of this case (and we have shown that it does *not*), it would mean merely that the *licensee* could assign *its* patents. The assignment statute neither states nor remotely suggests that the licensor can coercively *compel* the licensee to do so as a condition to a license under the *licensor's* patents.

The "improper use" doctrine is in no wise concerned with what the *licensee* legally may do with its property, whether it be *patent* property or *any other type of prop-*

erty. The doctrine is concerned only with what the *licensor* attempts to do with *its patent* property. And as the majority of the Court stated:

> "In sum, a patent license may not be used coercively to exact a condition contrary to public policy."

It is evident, therefore, that it is quite immaterial whether or not Congress has sanctioned assignment by *licensee* of *its* patents. The material fact is that Congress has *not* sanctioned the use of a patent *by its owner* coercively to exact assignment of another's patents as a condition to a license under the *licensor's* patent. It is precisely *that* which is "contrary to public policy". It is precisely *that* which this Court repeatedly has condemned as illegal because it comprises the use of the *licensor's* patent monopoly to create *another and different* monopoly which was *not included within the licensor's patent monopoly.* We repeat, *that,* precisely, is what this Court repeatedly has held to be "contrary to public policy".

It is also evident that it likewise is wholly immaterial whether or not the *licensee's* monopoly is a "legalized" one in the sense the majority opinion uses that term (Opinion, p. 7). Here, again, it is not the type or character of the *licensee's* monopoly that is subject to scrutiny. To the contrary, as this Court repeatedly has directed, it is the *licensor's* patent monopoly that must be examined to see whether or not it includes within it that which the licensor seeks *additionally* to monopolize.

Moreover, it should be quite evident that the legal right of a patent licensee to assign patents that the *licensee* might own is entitled to no greater consideration, because the right is established by statute, than is the unquestionable right of a *licensee* to buy from licensor dry ice, salt

tablets, emulsion or thermostatic switches. *It is not the legal right of licensee that is material;* to the contrary, it is the right of the *licensor* to *compel* the licensee to do any of those things in the face of the opposed public policy as repeatedly asserted by this Court.

Therefore, again it is confidently believed that when the Court realizes the error of its conclusion because it was based upon the Court's consideration of what it was legal for the *licensee* to do, rather than upon consideration of *licensor's coercive exaction of a condition to a license under licensor's patents,* the Court will realize the necessity for a rehearing, and will grant the present petition.

III.

What was referred to at the argument by counsel for Transparent-Wrap as the "Carbice Doctrine", had its origin in the *Motion Picture Patents* case (243 U. S. 502) which was decided in 1917, and during the ensuing thirty years this Court reiterated and enforced that doctrine seven times (the specific cases will be discussed later). The chain of reaffirmation was unbroken; and what is perhaps of greater importance, *in each of the cases the decision of this Court was unanimous* in upholding and enforcing the doctrine.

Additionally, it should be noted that although the doctrine was born in a situation where the patent owner sought to create a limited monopoly in *unpatented* materials used with the invention of the patent, this Court was quick to realize—and to say—that the vice necessitating the doctrine and its enforcement was the utilization of the bargaining power of a patent by its owner to create or maintain a monopoly in *something which the patent did not cover or purport to monopolize.* Thus, the determining factor of

impropriety was not the physical nature or character of the "something" which the patent owner sought to monopolize, but was whether or not that "something" was covered by the patent. In consequence, it would seem to be so clear as to be beyond question that the doctrine is not in the least concerned with whether or not that "something" is expensive or cheap, large or small, *patented or unpatented*, or whether it be a commodity or a franchise.

A brief review of each of the decisions, beginning with the *Carbice* case, it is believed, will establish the point beyond question.

***Carbice Corp.* v. *American Patents Development Corp.*, 283 U. S. 27.**

The decision in the *Carbice* case, rendered March 9, 1931, was written by Mr. Justice BRANDEIS for an *unanimous* Court, no member of which presently is a member of the Court.

***International Business Machines Co.* v. *United States*, 298 U. S. 131.**

The decision in this case, rendered April 27, 1936 and written by Mr. Justice STONE, likewise was by an *unanimous* Court (Mr. Justice ROBERTS not participating).

***Leitch Manufacturing Company* v. *Barber Company*, 302 U. S. 458.**

The decision in this case, rendered January 3, 1938 and written by Mr. Justice BRANDEIS, likewise was by an *unanimous* Court (Mr. Justice CARDOZO not participating).

The foregoing three decisions all involved instances where the patent owner, by some form of license device,

sought to acquire a limited monopoly in materials used with or in connection with the practicing of the invention of the patent. In each instance what the *licensee* lawfully might have done was of no moment. The Court, quite properly, was only concerned with whether or not the *licensor* could use the bargaining power of its patent in the manner attempted.

***Ethyl Gasoline Corp. v. United States*, 309 U. S. 436.**

The decision in this case, rendered March 25, 1940, was written by Mr. Justice STONE for an *unanimous* Court (Justices MCREYNOLDS and ROBERTS not participating). *Justices* REED, FRANKFURTER, and DOUGLAS (*who participated in the majority opinion of the Court in the case at bar*) *concurred in the opinion in that case.*

This was the first case involving the doctrine to reach this Court which involved a practice other than the use of patent rights in the effort to create and maintain a limited monopoly in *unpatented* materials used with the invention. In that case this Court said (at p. 456):

> "The patent law confers on the patentee a limited monopoly, the right or power to exclude all others from manufacturing, using or selling his invention. * * * *The extent of that right is limited by the definition of his invention, as its boundaries are marked by the specifications and claims of the patent* * * *.* He may grant licenses to make, use or vend, restricted in point of space or time, or with any other restriction upon the exercise of the granted privilege, *save only that by attaching a condition to his license he may not enlarge his monopoly and thus acquire some other which the statute and the patent together did not give.*

> *"He may not, by virtue of his patent, condition his license so as to tie to the use of the patented device or process the use of other devices, processes or materials which lie outside of the monopoly of the patent licensed; * * * or condition the license so as to control conduct by the licensee not embraced in the patent monopoly; * * ** or upon the maintenance of resale prices by the purchaser of the patented article."

By that language, and the specific mention of "conduct by the licensee" and "resale prices", the Court (*including Justices* REED, FRANKFURTER *and* DOUGLAS) unequivocally and positively recognized and ruled that the doctrine is not concerned with the *character* of the "something" outside of the patent which the patent owner sought to monopolize, but only with *the scope of the patent used for such purpose, i.e.* whether or not the "something" sought to be monopolized was within "its boundaries" as "marked by the specifications and claims of the patent". The Court also expressly ruled

> "that *by attaching a condition to his license* a patent owner may not *enlarge* his monopoly and thus acquire *some other* which the statute and the patent together did not give."

Should there be any doubt as to this prohibition including *everything* not covered by the licensed patent—and specifically *other patents* as distinguished from "unpatented materials"—the Court later and explicitly covered the matter by its statement (at p. 459):

> "The *patent monopoly of one invention* may no more be enlarged for the exploitation of *another* * * * than for the exploitation of an unpatented article * * * or for the exploitation or promotion of a *business* not embraced within the patent."

It is impossible to reconcile the majority opinion in the present case with this prior *unanimous* decision.

***Morton Salt Co.* v. *G. S. Suppiger*, 314 U. S. 488.**

The decision in this case, rendered January 5, 1942, was written by Mr. Chief Justice STONE, again for an *unanimous* Court (Mr. Justice ROBERTS not participating). Thus, four of the five justices who concurred in the majority opinion of the Court in the case at bar (Justices REED, FRANKFURTER, DOUGLAS and JACKSON) concurred with Chief Justice STONE in that case. By its decision there, the Court recorded recognition of the principle, and announced the law, that the "improper use" doctrine did not require for its application an improper monopoly of the extent required to establish violation of the anti-trust laws, and based its conclusion upon reiteration of the broad principle (at p. 491):

> "A patent operates to create and grant to the patentee an exclusive right to make, use and vend the particular devices described and claimed in the patent. *But a patent affords no immunity for a monopoly not within the grant.*"

And in pointing out that the privilege of a patent monopoly carries out a public policy, adopted by the Constitution and by Congress, the Court said (at p. 492):

> "But the public policy which includes invention within the granted monopoly *excludes from it all that is not embraced in the invention.*"

Thus, it will be seen that again the Court *unanimously* affirmed what had now become the simple test of applicability of the doctrine, namely—Is the thing, which *the patent owner* seeks to monopolize, *within the grant*—within the four corners—of the patent that he is using for that purpose?

***B. B. Chemical Co.* v. *Ellis*,**
314 U. S. 495.

The opinion in this case, decided on the same day as was the *Morton Salt* case, also was written by Mr. Chief Justice STONE. Again, the decision was *unanimous* (Mr. Justice ROBERTS not participating). It presented another attempt by a patent owner to use the patent to create a limited monopoly in "something" the patent did not cover.

***Mercoid Corp.* v. *Mid-Continent*,**
320 U. S. 661.

The opinion in this case, rendered January 3, 1944 and written by Mr. Justice DOUGLAS, again spoke for an *unanimous* Court on the "improper use" doctrine.*

Again Justices REED, FRANKFURTER, DOUGLAS and JACKSON joined their voices in the reaffirmation and enforcement of the "improper use" doctrine. As to that doctrine the Court said (at p. 665):

> "The grant of a patent is the grant of a special privilege 'to promote the Progress of Science and useful Arts.' Const. Art. 1, § 8. It carries, of course, a right to be free from competition in the practice of the invention. *But the limits of the patent are narrowly and strictly confined to the precise terms of the grant.*"

In support of this statement the Court cited its decision in the *Ethyl Gasoline* case, as well as in the *United States* v. *Univis Lens*, 316 U. S. 241, 251. It should be noted that

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* Justices ROBERTS, REED, FRANKFURTER and JACKSON differed with the majority opinion on other aspects thereof, notably, the doctrines of *res judicata* and contributory infringement, a consideration of the latter of which several of the dissenting Justices believed was not necessary to the decision of the Court and should not have been gone into.

neither of those cases had to do with an instance where the patentee was improperly attempting to create a limited monopoly in "unpatented" materials.

The decision continues:

> "It is the public interest which is dominant in the patent system. * * * It is the protection of the public in a system of free enterprise which alike nullifies a patent where any part of it is invalid; * * * *and denies to the patentee after issuance the power to use it in such a way as to acquire a monopoly which is not plainly within the terms of the grant.*"

Can there be any possible doubt as to the meaning of this language, *unanimously* subscribed to by every member of the Court? Can there by any clearer test of the applicability of the "improper use" doctrine than here was stated, namely, that if what was sought to be monopolized by means of the patent grant was *outside* of the terms of the patent grant the doctrine applies? Can there be any doubt but that the Court there saw the immateriality of whether or not what was sought to be monopolized was patented or unpatented? Quite properly the Court realized, and recorded its realization, that a patent may *not* be used "in such a way as to acquire a monopoly *which is not plainly within the terms of the grant*" of that patent. It is impossible to reconcile this language with the majority decision in the present case.

In that case, as in the case at bar, the Court considered the alleged "necessities" or "convenience" of the patentee as justification for the improper practices of the patent owner, and said (at p. 666):

> "The necessities or convenience of the patentee do not justify any use of the monopoly of the patent to create *another* monopoly. *The fact that the patentee*

> *has the power to refuse a license does not enable him to enlarge the monopoly of the patent by the expedient of attaching conditions to its use.*"

Here, again, the language of the unanimous Court is clear and unequivocal, and by its terms expressly excludes from what is proper the use of *one* patent monopoly to create *another* monopoly regardless of its character. By the breadth of the language employed it is self-evident that neither in principle nor by terms is it material whether or not the "other monopoly" is a patent or some other form of monopoly.

Turning again to the test of the doctrine, the decision continues (at p. 666):

> "It [the patent] results from invention and is *limited to the invention which it defines.* When a patentee ties something else to his invention, he acts only by virtue of his right as the owner of property to make contracts concerning it and not otherwise. He then is subject to all the limitations upon that right which the general law imposes upon such contracts. *The contract is not saved by anything in the patent laws because it relates to the invention.* If it were, the mere act of the patentee could make the distinctive claim of the patent attach to something which does not possess the quality of invention. Then the patent would be diverted from its statutory purpose and become a ready instrument for economic control in domains where the anti-trust acts or other laws not the patent statutes define the public policy."

So here, again, it is impossible to reconcile the majority opinion in the present case with this prior *unanimous* decision, which recognized that the application of the "improper use" doctrine is based solely on what the *licensor* legally may do.

***Mercoid Corp.* v. *Minneapolis-Honeywell Regulator Co.*, 320 U. S. 680.**

This companion case, decided the same day by an opinion also written by Mr. Justice DOUGLAS for an *unanimous* Court, again reaffirmed the doctrine, concluding with the statement:

> "It likewise follows that respondent may not obtain from a Court of equity any decree which directly or indirectly helps it to subvert the public policy which underlies the grant of its patent."

That public policy, stated again and again in the preceding opinions of the Court, and reduced to its simplest expression, is that *a patent may not be used to create or maintain a monopoly in something which the patent does not monopolize;* otherwise, as Mr. Justice DOUGLAS said for the Court in the first *Mercoid* case (320 U. S. at p. 667), "a vast power 'to multiply monopolies' at the will of the patentee (Chief Justice White dissenting in Henry v. A. B. Dick Co. supra 224 U. S. p. 53)", would result.

It is impossible to believe that the four members of the Court who participated in the foregoing *unanimous* decisions, and who joined in the majorty opinion in this case, intended to create any exception to the doctrine, principally because had they intended to do so it would have been so stated and was not. Indeed, the language, purport and obvious intent of the prior unanimous decisions of this Court, in which those four members of this Court joined, completely negate the slightest thought that in the present case the majority of the Court intended to create an exception.

The present majority opinion, however, not only creates an exception where the "something" which the patentee

ties to his patent is independently patented, but also *effectively nullifies the doctrine itself,* as will be seen from a brief review of the possible—indeed, the inevitable—consequences of the majority opinion.

The consequences of the present opinion.

In the first place, it now will be possible for a patent owner to exact as a condition to a license under his patent that the licensee will assign to the licensor every issued patent or application for patent that the licensee may own or ever acquire; and if the present opinion is allowed to stand despite the fact, as shown in the first ground for this petition, that the assignment statute does *not* apply to inventions *in futuro,* the condition can also include the patent rights for *all* inventions that the licensee might make or acquire in the future. Thus, not only would a patent owner be able to "multiply monopolies" in one art, but they would be *enforcible* monopolies—patent grants—in *every* art to which the licensee's inventions, applications for patent, or patents might apply. This necessarily follows because the ground upon which the majority opinion is based permits no distinction between inventions for "improvements" on the licensed patent, inventions "suitable for use in connection with" the licensed patent, inventions "applicable" to the licensed patent, or inventions of *any* kind, regardless of the art to which they relate. Thus, for example, had the Wright Brothers included such a clause in license agreements under their patents with airplane manufacturers, today the Wright Brothers would be the owners not only of all patents relating to airplanes granted on inventions made by the licensed manufacturers, but also of all patents relating to every other art and industry to which the licensed manufacturers directed their industrial efforts —all as a condition for permission to manufacture airplanes under the Wright patents.

It is believed the vice of such a situation is so apparent —and so vicious—as not to require extended discussion. Either there will be a gradual and constantly increasing concentration of patent monopolies in the hands of a few, or there is bound to be a material lessening—bordering on complete elimination—of prompt public availability of the products of inventive ingenuity because of the well justified reluctance of manufacturers to pay such a high price for a license under patent rights.

As a third possibility—or inevitable consequence—manufacturers operating under patent licenses containing a compulsory assignment provision such as now has been sanctioned inevitably will be forced to discontinue research and invention because the consequences of continuing to do so include not only the loss of ownership in the patent rights for such inventions, but also the perpetuation—long after the expiration of the licensed patent—of the obligation to pay royalties, then as a consequence of their own inventive ingenuity. Thus would the public purpose of the patent laws be subverted.

And it is no answer to this that the public would be protected by the anti-trust laws. As the majority opinion states, the applicability of the "improper use" doctrine is *not* gauged by the anti-trust laws—*i. e.* it is *not* necessary that the improper monopoly be of the character or extent required to constitute a violation of the anti-trust laws. In consequence, the Court repeatedly has recorded its recognition (in each of the seven cases above discussed, as well as in the majority opinion in the present case) that the public interest demands protection from the improper "limited" monopolies sought to be established by patent owners, *even though such monopolies fall far short in extent or degree of what would be required to constitute violation of the anti-trust laws.*

Thus, in creating an exception to the "improper use" doctrine in the case of materials *patented by the licensee*, or of licensee's *patent rights*, the Court has vitiated and nullified the doctrine by making it possible to put in the hands of the patent owner an *enforcible* monopoly where theretofore even an *unenforcible* monopoly was considered to be so contrary to the public interest as to warrant its condemnation.

Therefore, it is impossible to believe that the members of the Court who joined in the majority opinion intended or will permit the "improper use" doctrine, with its judicial history of unbroken, unanimous reaffirmation since its announcement, to be vitiated and nullified as it has been by the majority opinion now outstanding.

Conclusion.

It is respectfully submitted, therefore, that the petition for rehearing should be granted.

Respectfully submitted,

SAMUEL E. DARBY, JR.,
Counsel for Respondent.

VIRGIL WOODCOCK,
Of Counsel.

Certificate.

As a member of this Court I hereby certify that the foregoing petition for rehearing is presented in good faith and not for delay.

Samuel E. Darby

SUPREME COURT OF THE UNITED STATES

No. 208.—October Term, 1946.

Transparent-Wrap Machine Corporation, Petitioner, *v.* Stokes & Smith Company.	On Writ of Certiorari to the United States Circuit Court of Appeals for the Second Circuit.

[February 3, 1947.]

Mr. Justice Douglas delivered the opinion of the Court.

This is a suit for a declaratory judgment (Judicial Code § 274d, 28 U. S. C. § 400) and an injunction, instituted by respondent for the determination of the legality and enforceability of a provision of a patent license agreement. The District Court, whose jurisdiction was based on diversity of citizenship (Judicial Code § 24 (1), 28 U. S. C. § 41 (1)) entered judgment for petitioner, holding the provision valid. — F. Supp. —. The Circuit Court of Appeals reversed by a divided vote, 156 F. 2d 198, being of the opinion that the provision in question was illegal under the line of decisions represented by *Mercoid Corporation* v. *Mid-Continent Co.*, 320 U. S. 661. The case is here on a petition for a writ of certiorari which we granted because of the public importance of the question presented and of the apparent conflict between the decision below and *Allbright-Nell Co.* v. *Stanley Hiller Co.*, 72 F. 2d 392, decided by the Seventh Circuit Court of Appeals.

Petitioner, organized in 1934, has patents on a machine which bears the trade-mark "Transwrap". This machine makes transparent packages, simultaneously fills them with such articles as candy, and seals them. In 1937 petitioner sold and respondent acquired the Transwrap

business in the United States, Canada, and Mexico, the right to use the trade-mark "Transwrap", and an exclusive license to manufacture and sell the Transwrap machine under the patents petitioner then owned or might acquire. The agreement contained a formula by which royalties were to be computed and paid. The term of the agreement was ten years with an option in respondent to renew it thereafter for five year periods during the life of the patents covered by the agreement. The agreement could be terminated by petitioner on notice for specified defaults on respondent's part. The provision of the agreement around which the present controversy turns is a covenant by respondent to assign to petitioner improvement patents applicable to the machine and suitable for use in connection with it.[1]

[1] The relevant portions of this provision read as follows:

> "If the Licensee shall discover or invent an improvement which is applicable to the Transwrap Packaging Machine and suitable for use in connection therewith and applicable to the making and closing of the package, but not to the filling nor to the contents of the package, it shall submit the same to the Licensor, which may, at its option, apply for Letters Patent covering the same. In the event of the failure of the Licensor so to apply for Letters Patent covering such additional improvements, inventions or patentable ideas, the Licensee may apply for the same. In the event that such additional Letters Patent are applied for and are granted to the Licensor, they shall be deemed covered by the terms of this License Agreement and may be used by the Licensee hereunder without any further consideration, license fee or royalty as above provided. In the event that any such additional improvements are patented by the Licensee for use in connection with Transwrap Packaging Machines, (after the refusal or failure of the Licensor to apply for Patents thereon), the Licensor may, nevertheless, have the use but not the exclusive use of the same outside of the several territories covered by this License Agreement. The expenses of obtaining any such Patents shall be paid by the party applying therefor."

By another provision of the agreement, likewise challenged, it was provided that during the term of the license all improvement patents, whether secured by petitioner or by respondent, were to be included in the terms of the license without payment of an additional royalty. The petitioner, however, was to have the right to use and license the use of any such improvements outside the territories covered by the agreement.

The parties had operated under the agreement for several years when petitioner ascertained that respondent had taken out certain patents on improvements in the machine. Petitioner notified respondent that its failure to disclose and assign these improvements constituted a breach of the agreement and called on respondent to remedy the default. When that did not occur, petitioner notified respondent that the agreement would be terminated on a day certain. Thereupon respondent instituted this action asking that the provisions respecting the improvement patents be declared illegal and unenforceable and that petitioner be enjoined from terminating the agreement.[2]

In a long and consistent line of cases the Court has held that an owner of a patent may not condition a license so as to tie to the use of the patent the use of other materials, processes or devices which lie outside of the monopoly of the patent. *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U. S. 502; *Carbice Corp.* v. *American Patents Dev. Corp.*, 283 U. S. 27; *Leitch Mfg. Co.* v. *Barber Co.*, 302 U. S. 458; *Morton Salt Co.* v. *Suppiger Co.*, 314 U. S. 488; *B. B. Chemical Co.* v. *Ellis*, 314 U. S. 495; *Mercoid Corporation* v. *Mid-Continent Co., supra; Mercoid Corp.* v. *Honeywell Co.*, 320 U. S. 680. As stated in *Morton Salt Co.* v. *Suppiger Co., supra*, p. 492, ". . . the public policy which includes inventions within

[2] Petitioner joined issue and filed a counterclaim asking that the improvement patents be assigned, that the agreement be held terminated and that respondent be enjoined from using the original or improvement patents. The District Court dismissed the complaint, declared the agreement terminated, and ordered respondent to assign the petitioner the improvement patents. The Circuit Court of Appeals, on reversing, held not only that the provision for the assignment of the improvement patents was unlawful but also that petitioner was excused from any further performance because respondent had repudiated its agreement to assign those patents. It remanded the cause to the District Court to determine whether petitioner was entitled to restitution.

the granted monopoly excludes from it all that is not embraced in the invention. It equally forbids the use of the patent to secure an exclusive right or limited monopoly not granted by the Patent Office and which it is contrary to public policy to grant." If such practices were tolerated, ownership of a patent would give the patentee control over unpatented articles which but for the patent he would not possess. "If the restraint is lawful because of the patent, the patent will have been expanded by contract. That on which no patent could be obtained would be as effectively protected as if a patent had been issued. Private business would function as its own patent office and impose its own law upon its licensees." *Mercoid Corp.* v. *Mid-Continent Co., supra,* p. 667. The requirement that a licensee under a patent use an unpatented material or device with the patent might violate the anti-trust laws but for the attempted protection of the patent. *Id.* The condemnation of the practice, however, does not depend on such a showing. Though control of the unpatented article or device falls short of a prohibited restraint of trade or monopoly, it will not be sanctioned. *Morton Salt Co.* v. *Suppiger Co., supra.* For it is the tendency in that direction which condemns the practice and which, if approved by a court either through enjoining infringement or enforcing the covenant, would receive a powerful impetus. *Id.*

The Circuit Court of Appeals was of the view that the principle of those cases was applicable here and rendered illegal and unenforceable the covenant to assign the improvement patents to petitioner. It stated, 156 F. 2d, p. 202, "The owner of all property, by withholding it upon any other terms, may, if he can, force others to buy from him; land is the best example and every parcel of land is a monopoly. But it is precisely in this that a patent is not like other property; the patentee may not use it to force others to buy of him things outside its four corners. If

the defendant gets the plaintiff's patents, it will have put itself in that position, in part at any rate, by virtue of the compulsion of its own patents."

It went on to note that since all improvement patents would not expire until after expiration of petitioner's patents on the machine, the arrangement put respondent at a competitive disadvantage. For respondent would lose the negative command over the art which ownership of the improvement patents would have given it. Moreover, respondent, though able to renew the license on conditions stated in the agreement, would be irretrievably tied to it so as to be "forced; either to cease all efforts to patent improvements, or to keep renewing the contract in order to escape the consequences of its own ingenuity." *Id.*, p. 203.

First. The first difficulty we have with the position of the Circuit Court of Appeals is that Congress has made all patents assignable and has granted the assignee the same exclusive rights as the patentee. "Every application for patent or patent or any interest therein shall be assignable in law by an instrument in writing, and the applicant or patentee or his assigns or legal representatives may in like manner grant and convey an exclusive right under his application for patent or patent to the whole or any specified part of the United States." R. S. § 4898, 35 U. S. C. Supp. V § 47. The statute does not limit the consideration which may be paid for the assignment to any species or kind of property. At least so far as the terms of the statute are concerned, we see no difference whether the consideration is services (cf. *Standard Parts Co.* v. *Peck*, 264 U. S. 52) or cash, or the right to use another patent.

An improvement patent may, like a patent on a step in a process, have great strategic value. For it may, on expiration of the basic patent, be the key to a whole technology. One who holds it may therefore have a considerable competitive advantage. And one who assigns it and

thereby loses negative command of the art may by reason of his assignment have suffered a real competitive handicap. For thereafter he will have to pay toll to the assignee, if he practices the invention. But the competitive handicap or disadvantage which he suffers is no greater and no less whether the consideration for the assignment be the right to use the basic patent or something else of value. That is to say, the freedom of one who assigns a patent is restricted to the same degree whether the assignment is made pursuant to a license agreement or otherwise.

If Congress, by whose authority patent rights are created, had allowed patents to be assigned only for a specified consideration, it would be our duty to permit no exceptions. But here Congress has made no such limitation. A patent is a species of property. It gives the patentee or his assignee the "exclusive right to make, use, and vend the invention or discovery" for a limited period. R. S. § 4884, 35 U. S. C. § 40. That is to say, it carries for the statutory period "a right to be free from competition in the practice of the invention." *Mercoid Corporation* v. *Mid-Continent Co., supra*, p. 665. That exclusive right, being the essence of the patent privilege, is, for purposes of the assignment statute, of the same dignity as any other property which may be used to purchase patents.

Second. What we have said is not, of course, a complete answer to the position of the Circuit Court of Appeals. For the question remains whether here, as in *Mercoid Corporation* v. *Mid-Continent Co., supra*, and its predecessors, the condition in the license agreement violates some other principle of law or public policy. The fact that a patentee has the power to refuse a license does not mean that he has the power to grant a license on such conditions as he may choose. *United States* v. *Masonite Corp.*, 316 U. S. 265, 277.

As we have noted, such a power, if conceded, would enable the patentee not only to exploit the invention but to use it to acquire a monopoly not embraced in the patent. Thus, if he could require all licensees to use his unpatented materials with the patent, he would have, or stand in a strategic position to acquire, a monopoly in the unpatented materials themselves. Beyond the "limited monopoly" granted by the patent, the methods by which a patent is exploited are "subject to the general law". *United States* v. *Masonite Corp., supra,* p. 277. Protection from competition in the sale of unpatented materials is not granted by either the patent law or the general law. He who uses his patent to obtain protection from competition in the sale of unpatented materials extends by contract his patent monopoly to articles as respects which the law sanctions neither monopolies nor restraints of trade.

It is at precisely this point that our second difficulty with the view of the Circuit Court of Appeals is found. An improvement patent, like the basic patent to which it relates, is a legalized monopoly for a limited period. The law permits both to be bought and sold. One who uses one patent to acquire another is not extending his patent monopoly to articles governed by the general law and as respects which neither monopolies nor restraints of trade are sanctioned. He is indeed using one legalized monopoly to acquire another legalized monopoly.

Mercoid Corporation v. *Mid-Continent Co., supra,* and its predecessors, by limiting a patentee to the monopoly found within the four corners of the grant, outlawed business practices which the patent law unaided by restrictive agreements did not protect. Take the case of the owner of an unpatented machine who leases it or otherwise licenses its use on condition that all improvements which the lessee or licensee patents should be assigned. He is using his property to acquire a monopoly. But the monopoly, being a patent, is a lawful one. The

general law would no more make that acquisition of a patent unlawful than it would the assignment of a patent for cash. Yet a patent is a species of property;[3] and if the owner of an unpatented machine could exact that condition, why may not the owner of a patented machine?

It is true that for some purposes the owner of a patent is under disabilities with which owners of other property are not burdened. Thus where the use of unpatented materials is tied to the use of a patent, a court will not lend its aid to enforce the agreement though control of the unpatented article falls short of a prohibited restraint of trade or monopoly. *Morton Salt Co.* v. *Suppiger Co.*, *supra*. There is a suggestion that the same course should be followed in this case since the tendency of the practice we have here would be in the direction of concentration of economic power that might run counter to the policy of the anti-trust laws. The difficulty is that Congress has not made illegal the acquisition of improvement patents by the owner of a basic patent. The assignment of patents is indeed sanctioned. And as we have said, there is no difference in the policy of the assignment statute whatever consideration may be used to purchase the improvement patents. And apart from violations of the anti-trust laws to which we will shortly advert, the end result is the same whether the owner of a basic patent uses a license to obtain improvement patents or uses the wealth which he accumulates by exploiting his basic patent for that purpose. In sum, a patent license may not be used coercively to exact a condition contrary to public policy. But what falls within the terms of the assignment statute is plainly not *per se* against the public interest.

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[3] See *James* v. *Campbell*, 104 U. S. 356, 358; *Hollister* v. *Benedict Mfg. Co.*, 113 U. S. 59, 67; *Cramp & Sons Co.* v. *International Curtis Co.*, 246 U. S. 28, 39–40; *United States* v. *Dubilier Condenser Corp.*, 289 U. S. 178, 187.

It is, of course, true that the monopoly which the licensor obtains when he acquires the improvement patents extends beyond the term of his basic patent. But as we have said, that is not creating by agreement a monopoly which the law otherwise would not sanction. The grant of the improvement patent itself creates the monopoly. On the facts of the present case the effect on the public interest would seem to be the same whether the licensee or the licensor owns the improvement patents.

There is a suggestion that the enforcement of the condition gives the licensee less incentive to make inventions when he is bound to turn over to the licensor the products of his inventive genius. Since the primary aim of the patent laws is to promote the progress of science and the useful arts (*United States* v. *Masonite Corp., supra*, p. 278 and cases cited), an arrangement which diminishes the incentive is said to be against the public interest. Whatever force that argument might have in other situations, it is not persuasive here. Respondent pays no additional royalty on any improvement patents which are used. By reason of the agreement any improvement patent can be put to immediate use and exploited for the account of the licensee. And that benefit continues so long as the agreement is renewed. The agreement thus serves a function of supplying a market for the improvement patents. Whether that opportunity to exploit the improvement patents would be increased but for the agreement depends on vicissitudes of business too conjectural on this record to appraise.

Third. We are quite aware of the possibilities of abuse in the practice of licensing a patent on condition that the licensee assign all improvement patents to the licensor. Conceivably the device could be employed with the purpose or effect of violating the anti-trust laws. He who acquires two patents acquires a double monopoly. As patents are added to patents a whole industry may be reg-

imented. The owner of a basic patent might thus perpetuate his control over an industry long after the basic patent expired. Competitors might be eliminated and an industrial monopoly perfected and maintained.[4] Through the use of patent pools or multiple licensing agreements the fruits of invention of an entire industry might be systematically funneled into the hands of the original patentee. See *United Shoe Machinery Co.* v. *La Chapelle*, 212 Mass. 467, 99 N. E. 289.

A patent may be so used as to violate the anti-trust laws. *Standard Sanitary Mfg. Co.* v. *United States*, 226 U. S. 20; *United Shoe Machinery Corp.* v. *United States*, 258 U. S. 451; *Ethyl Gasoline Corp.* v. *United States*, 309 U. S. 436; *United States* v. *Masonite Corp.*, *supra*. Such violations may arise through conditions in the license whereby the licensor seeks to control the conduct of the licensee by the fixing of prices (*Ethyl Gasoline Corp.* v. *United States*, *supra*; *United States* v. *Masonite*, *supra*) or by other restrictive practices. *United Shoe Machinery Corp.* v. *United States*, *supra*. Moreover, in the Clayton Act, 38 Stat. 730, 731, 15 U. S. C. § 14, Congress made it unlawful to condition the sale or lease of one article on an agreement not to use or buy a competitor's article (whether either or both are patented), where the effect is "to substantially lessen competition or tend to create a monopoly". See *International Business Machines Corp.* v. *United States*, 298 U. S. 131. Congress, however, has made no specific prohibition against conditioning a patent license on the assignment by the licensee of improvement patents. But that does not mean that the

[4] See Patents and Free Enterprise, Monograph No. 31, Investigation of Concentration of Economic Power, Temporary National Economic Committee, 76th Cong., 3d Sess., chs. V & VII; Wood, Patents and Antitrust Law (1941), chs. 3 & 4; Marcus, Patents, Antitrust Law and Antitrust Judgments through Hartford-Empire. (1946) 34 Georgetown L. J. 1.

practice we have here has immunity under the anti-trust laws. Indeed, the recent case of *Hartford-Empire Co.* v. *United States*, 323 U. S. 386, 324 U. S. 570, dramatically illustrates how the use of a condition or covenant in a patent license that the licensee will assign improvement patents may give rise to violations of the anti-trust laws.[8]

The District Court found no violation of the anti-trust laws in the present case. The Circuit Court of Appeals did not reach that question. Hence it, as well as any other questions which may have been preserved, are open on our remand of the cause to the Circuit Court of Appeals.

We only hold that the inclusion in the license of the condition requiring the licensee to assign improvement patents is not *per se* illegal and unenforceable.

Reversed.

MR. JUSTICE BLACK, MR. JUSTICE RUTLEDGE, and MR. JUSTICE BURTON would affirm the judgment for the reasons set forth in the opinion of the Circuit Court of Appeals.

MR. JUSTICE MURPHY is of the view that the judgment below should be affirmed. He believes that the Court's decision in this case unduly enlarges the scope of patent monopolies and is inconsistent with the philosophy enunciated in *Mercoid Corporation* v. *Mid-Continent Co.*, 320 U. S. 661, and similar cases.

[8] See note 45 Col. L. Rev. 601.